



**Investment Office**

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April 17, 2009

**AGENDA ITEM 8**

**TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Policy Review and Consolidation Project Update
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Approve Staff's recommendations as follows:
- (1) Update all policies to reflect the latest template language.
  - (2) Review each asset class delegation document.
  - (3) Implement initial rolling review process for all investment policies.

**IV. ANALYSIS:**

The purpose of this item is to update the Subcommittee on the Investment Office's Policy Review Project. The key objectives of the Policy Review Project are to (1) to organize and streamline Investment Office policy to improve access, clarity and transparency, (2) to provide a consistent investment policy framework, and (3) to ensure that the policies will facilitate the on-going compliance program.

On June 18, 2007, staff provided the Investment Committee with a briefing on the project. At that time, staff presented the revised policy template, which was designed to provide consistency across policies. In addition, staff presented the new Table of Contents (Attachment 1), which was designed to reflect a top-down and cross-asset class organizational approach. Finally, to facilitate the top-down approach, the Committee approved a new overarching Statement of Investment Policy for the Total Fund.

The Policy Review Project provided a detailed review of each policy with the goal of updating and streamlining the policy, as well as potential consolidation with

other related policies. Staff prepared a “checklist” to be used in reviewing policies (Attachment 2). In addition to these goals, the review and revisions included the following:

- Removal of delegations from policy. During the Delegations Project, staff reviewed all policies, minutes, and delegations to identify and consolidate delegations. Asset class delegations are now centrally located and can be found in individual asset class delegation documents.
- Removal of operational and procedural language, which is now located in staff internal procedure manuals and maintained by their respective asset classes.
- Conformance to the new policy template (Attachment 3).

The review has been a joint effort and includes input from the General Pension Consultant, the private equity and real estate consultants as appropriate, the CalPERS Legal Office, and the Enterprise Office of Compliance.

### **Status of the Delegation Project**

With regard to the Delegations portion of the Policy Review Project, staff reviewed meeting minutes, policy, and other documents to produce a consolidated body of Investment Office delegations. The Ad Hoc Board Governance Committee, in September 2006, approved revisions to the delegation section of the Board’s Statement of Governance Principles. The revisions clarified the authority, process, and the applicable standards for making delegations. Furthermore, the Investment Committee adopted the Guidelines for Delegating Investment Authority in November 2006 (Attachment 4). Consolidated delegation documents for each of the asset classes have since been brought forward to, and adopted by, the Investment Committee.

### **Status of the Policy Review Project**

Staff believes that the review of all Investment Office policies will be completed by August 2009. The Real Estate policies are scheduled to be presented for approval at the April Policy Subcommittee meeting and should be approved at the May Investment Committee meeting. The Operations policies are scheduled to be presented for approval at the June Policy Subcommittee meeting and should be approved at the August Investment Committee meeting.

Given the project’s scope, timeline, and the lessons learned during its implementation, staff has developed a new schedule for policy review going forward.

Keeping the policies on a review schedule will provide periodic opportunities to review each investment policy and prevent any of the language from becoming dated or obsolete. Updating each of the policies with template language and ensuring that delegations are consistent with policy provisions will effectively incorporate the lessons learned on the project.

Staff recommends the following:

- All policies should be updated, over the next quarter, to reflect the latest template language. The investment policy template has evolved during the course of this project; therefore, some policies need to be revised. Staff considers these updates “administrative” in nature and recommends that these changes be treated as such, allowing staff to make the changes without bringing the policies forward for approval.
- Each asset class delegation document shall be reviewed to ensure consistency with policy provisions. Revisions that are deemed necessary will be brought forward to the Investment Committee for approval.
- Implement an initial rolling review of all investment policies to ensure policies reflect current practices and to ensure policies continue to reflect the goals of the Policy Review Project. A proposed schedule is included as Attachment 5. Following the first full cycle of rolling review, staff will re-evaluate the timeline.

## **V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liability to ensure sufficient funds are available, first to pay benefits, and second, to minimize and stabilize contributions and Goal IX: Achieve long term, sustainable, risk-adjusted returns.

## **VI. RESULTS/COSTS:**

Upon completion of this project, the CalPERS Investment Program will have a streamlined policy and delegations framework that will allow staff to operate within a transparent and clearly stated body of policies and delegations that set forth a clearly defined chain of authority and responsibility.

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